SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3998 Amended by the House of Representatives on April 9, 2019
Author:	Bannister
Subject:	Workforce and Senior Affordable Housing Act
Requestor:	Senate Finance
RFA Analyst(s):	Jolliff and Miller
Impact Date:	September 3, 2019

Fiscal Impact Summary

This bill is not expected to impact state expenditures as South Carolina State Housing Finance and Development Authority (S.C. Housing) currently provides support to the Internal Revenue Service in administering the federal tax credits for South Carolina and this state tax credit will mirror the federal credit. We anticipate that since the Department of Revenue and Department of Insurance are tasked with administering income tax, corporate license fees, bank tax, and insurance tax, these agencies will provide the necessary coordination with S.C. Housing to implement the credits in the normal course of agency business.

This bill is expected to reduce General Fund individual income tax, corporate income tax or license fees, bank tax, or insurance premium taxes by $2,057,000 beginning in FY 2020-21. As additional projects are placed in service, the tax credits will continue to grow annually by an additional $2,057,000 per year for ten years until FY 2029-30 when the full cycle of tax credits is in place, for a cumulative General Fund reduction of approximately $20,570,000 in FY 2029-30. However, any unused credits may be carried forward for five tax years, and the timing of the impact may vary if taxpayers do not have sufficient tax liability to claim the credit in the year allowed.

This amended bill is expected to reduce local revenue by a range of $0 to $90,780 for each newly eligible project becomes exempt from municipal property taxes and fees beginning in FY 2020-21. Additionally, there will be a reduction in revenue of as much as $176,712 for one-time fees not incurred under this bill for each new project. The actual reduction in local revenue will depend on the value of the project, the millage rate of the municipality, and any fees that the municipality would otherwise collect.

Explanation of Fiscal Impact

Amended by the House of Representatives on April 9, 2019
State Expenditure
This bill establishes the Workforce and Senior Affordable Housing Act to create a tax credit for qualified low-income housing projects. The tax credit is based upon the federal housing tax credit provided in Internal Revenue Code (IRC) §42. The bill specifies that the S.C. Housing may promulgate regulations necessary to implement and administer the provisions of the section. S.C. Housing currently provides support to the Internal Revenue Service in administering the federal tax credits for South Carolina. As the specifications for a qualified project are defined in

IRC §42, and the tax credit amount is based upon the federal credit, we do not anticipate that this bill will impact expenditures for S.C. Housing. Further, we anticipate that since the Department of Revenue and Department of Insurance are tasked with administering income tax, corporate license fees, bank tax, and insurance tax, these agencies will provide the necessary coordination with S.C. Housing to implement the credits in the normal course of agency business. Therefore, the bill is not expected to impact State expenditures.

State Revenue

This bill establishes the Workforce and Senior Affordable Housing Act to create a tax credit for qualified low-income housing projects. The tax credit is based upon the federal housing tax credit as provided in IRC §42 and is available for any qualified project, as defined in §42, placed in service in South Carolina after January 1, 2020. The amount of the credit is equal to the federal housing tax credit allowed for the qualified project and applies to tax years after 2019.

A qualifying taxpayer must be a sole proprietor, partnership, corporation of any classification, limited liability company, or association taxable as a business entity that is subject to South Carolina taxes pursuant to §12-6- 510 (individual income tax), §12-6-530 (corporate income tax), Chapter 11 of Title 12 (bank tax), or Chapter 7 of Title 38 (insurance premium tax). The credit may be claimed against income tax, corporate income tax or license fees, bank taxes, or insurance premium taxes. The total amount of the credit may not exceed the taxpayer's income tax liability. Any unused credits may be carried forward for five tax years. The bill also requires that if any portion of a federal housing tax credit is required to be recaptured, the portion of the state credit related to the project is also subject to recapture.

The IRC §42 Low Income Housing Tax Credit (LIHTC) Program was enacted by Congress as part of the Tax Reform Act of 1986 to encourage new construction and rehabilitation of existing buildings as low-income rental housing for households with income at or below specified income levels. The program is jointly administered by the IRS and state-authorized tax credit allocating agencies.

Under IRC §42, the taxpayer agrees to provide low-income housing for at least thirty years.

- In exchange for the investment in low-income housing, the taxpayer will receive tax credits for each of ten years, which is known as the "credit period."
- To keep the credit, the taxpayer must provide low-income housing for fifteen years, which is known as the "compliance period." Failure to maintain the housing in compliance with IRC §42 requirements for the entire compliance period can result in the recapture of a portion of the credit allowable in prior years.
- After IRS jurisdiction ends, the state agency has sole jurisdiction and the taxpayer must continue to provide low-income housing for at least another fifteen years. The "extended use period" is at least 30 years, beginning with the first year of the credit period.

All three time periods begin on the same day; i.e., the first day of the tax year in which the building is placed in service, or if the taxpayer elects, the beginning of the following tax year.

Two types of LIHTCs are available depending on the nature of the construction project. The referenced 9 percent credit is generally reserved for new construction, while the 4 percent credit is typically used for rehabilitation projects and new construction that is financed with tax-exempt bonds. Each year, for 10 years, a tax credit equal to roughly 4 percent or 9 percent of a project's qualified basis (cost of construction) is claimed. Each state receives an allocation for 9 percent tax credits on an annual basis. Under IRC §42(h)(3), the amount of credit available to the state for allocation to taxpayers for any calendar year is the "credit ceiling." According to a report by the Congressional Research Service, in 2019, states received an LIHTC allocation of $2.75625 per person, with a minimum small population state allocation of $3,166,875. These amounts reflect a temporary increase in the amount of credits each state received as a result of the 2018 Consolidated Appropriations Act (P.L. 115-141). The increase is equal to 12.5 percent above what states would have received absent P.L. 115-141, and is in effect through 2021. The state allocation limits do not apply to the 4 percent credits, which are automatically packaged with tax-exempt bond financed projects.

S.C. Housing provided data regarding awards for LIHTCs for 2016, 2017, and 2018 as shown below. Based upon these values, we anticipate that credits awards will average $20,570,000 through 2021 due to the higher ceiling, although this amount may vary depending on the state allocation. These credits must be claimed equally over the ten-year credit period.

S.C. Housing Credit Awards

Year	Program	Tax Credit Amount
2016	9% LIHTC	$ 12,271,707.00
2016	4% LIHTC	$ 1,665,635.00
2017	9% LIHTC	$ 11,443,396.00
2017	4% LIHTC	$ 3,524,086.00
2018	9% LIHTC	$ 13,637,217.00
2018	4% LIHTC	$ 6,930,816.00

Section 4 of the bill as amended specifies that the project must be placed in service after January 1, 2020. Based upon conversations with S.C. Housing, construction for projects typically takes one to two years after approval of the credits, and credits awarded during the 2018 process are expected to be in service one to two years after approval. Therefore, we would expect that the projects placed in service after January 1, 2020, will be claiming approximately one-tenth of the credits approved for 2018. This would result in tax credits of approximately $2,057,000 in tax year 2020. This would reduce General Fund individual income tax, corporate income tax or license fees, bank tax, or insurance premium taxes by $2,057,000 beginning in FY 2020-21. As additional projects are placed in service, the tax credits will continue to grow annually by an additional $2,057,000 per year for ten years until FY 2029-30 when the full cycle of tax credits is in place, for a cumulative General Fund reduction of approximately $20,570,000 in FY 2029-30. However, any unused credits may be carried forward for five tax years, and the timing of the impact may vary if taxpayers do not have sufficient tax liability to claim the credit in the year allowed.

Local Expenditure
N/A

Local Revenue
This bill as amended allows an exemption from all municipality property taxes and fees for a qualified project once it becomes eligible for the credit created in this bill. Section 4 of the bill as amended specifies that the project must be placed in service after January 1, 2020. Based upon conversations with S.C. Housing, construction for projects typically takes one to two years after approval of the credits, and credits awarded during the 2018 process are expected to be in service one to two years after approval. Therefore, we would expect that the projects with credits awarded in 2018 and placed in service after January 1, 2020, will be eligible for the municipal exemption.

The reduction in local property tax revenue will depend on the assessed value of each project and the millage rate for the individual municipality. Additionally, the fees charged vary for each municipality. Revenue and Fiscal Affairs asked the Municipal Association of South Carolina (MASC) to assist in collecting the current property taxes collected by the municipalities on LIHTC. MASC received responses from Hartsville, Rockhill, Goose Creek, and Aiken. The following table provides the current highest and lowest amounts paid in property taxes and fees for individual LIHTC projects in each municipality.

Municipality	Highest Revenue	Lowest Revenue
Hartsville	$15,560	$0
Rockhill	$90,780	$21,725
Goose Creek	$22,866	N/A

Two of the projects in Hartsville are owned by the Housing Authority of Hartsville and are thereby already exempt from municipal property taxes and fees.

Further, Aiken estimated the total current property tax and fee revenue for two of the three qualifying projects in the municipality totals $10,200. The third property is already exempt from taxes.

Rockhill, Goose Creek, and Hartsville also noted that projects may be exempt from one-time fees such as a permitting fee and a plan review fee. Based on current projects, the exemption of these fees could result in an additional local revenue reduction between $72,145 and $101,390 for Rockhill, $51,411 for Goose Creek, and between $21,517 and $176,712 for Hartsville, in one-time fees.

Based on the responses from the four municipalities, the amended bill is expected to reduce local revenue by a range of $0 to $90,780 for each newly eligible project becomes exempt from municipal property taxes and fees beginning in FY 2020-21. Additionally, there will be a reduction in revenue of as much as $176,712 for one-time fees not incurred under this bill for each new project. The actual reduction in local revenue will depend on the value of the project, the millage rate of the municipality, and any fees that the municipality would otherwise collect.

Amended by House Ways and Means on March 27, 2019
State Expenditure
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State Revenue
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compliance with IRC §42 requirements for the entire compliance period can result in the recapture of a portion of the credit allowable in prior years.
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SC Housing provided data regarding awards for LIHTCs for 2016, 2017, and 2018 as shown below. Based upon these values, we anticipate that credits awards will average $20,570,000 through 2021 due to the higher ceiling, although this amount may vary depending on the state allocation. These credits must be claimed equally over the ten-year credit period.

SC Housing Credit Awards

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Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater, Executive Director